

# **REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON KNYSNA MUNICIPALITY**

## **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying consolidated and separate financial statements of the Knysna Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2011, and the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report as set out on pages 10 to 81.

### **Accounting officer's responsibility for the consolidated financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these consolidated and separate financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a

basis for my audit opinion.

## **Opinion**

7. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Knysna Municipality as at 30 June 2011 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

## **Significant uncertainties**

9. Enquiries of management and the municipality's legal representatives confirmed that the municipality is a defendant in actions instituted for damages and claims totalling R6 558 504. The outcome of these legal claims cannot be determined, but based on best estimate and judgement by management, these amounts have been disclosed as a contingent liability in note 52 to the consolidated financial statements.

## **Restatement of corresponding figures**

10. As disclosed in note 37 to the consolidated financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during 30 June 2011 in the consolidated financial statements of Knysna Municipality at, and for the year ended, 30 June 2011.

## **Additional matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters:

## **Unaudited supplementary schedules**

11. The supplementary information set out on pages 82 to 83, does not form part of the consolidated financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **Material inconsistencies in other information included in the annual report**

12. The draft annual report has not yet been submitted to us for review to identify any material inconsistencies that may exist between the annual report and financial statements. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 41 to 96 and material non-compliance with laws and regulations applicable to the Knysna Municipality and its municipal entity.

### **Predetermined objectives**

#### **Compliance with laws and regulation**

14. The accounting officer of the municipality did not by 25 January 2011 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.
15. A mid-year performance review was not performed by the accounting authority of the municipal entity and therefore not submitted to Knysna Municipality in terms of section 88 of the MFMA.
16. The municipal entity did not prepare and include an assessment by the entity's accounting authority of the entity's performance against any measurable performance objectives set, in terms of the service delivery agreement or other agreement between the entity and its parent municipality, as required by section 121(4)(d) and 127 of the MFMA.

### **Reliability of information**

17. The reported performance information was deficient in respect of the following criteria:
- Validity: The reported performance did not occur and does not pertain to the entity.
  - Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
  - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

18. For the selected programmes, 21% of the reported indicators were not valid, accurate and complete based on the source information or evidence provided.

## **Compliance with laws and regulations**

### **Expenditure management**

19. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

### **Procurement and contract management**

20. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of Municipal SCM regulation 13(c).
21. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).

### **Asset Management**

22. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2)(c) of the Municipal Finance Management Act.

## **INTERNAL CONTROL**

23. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

24. The accounting officer and his delegated officials did not exercise adequate oversight responsibility with regards to the compliance with laws and regulations applicable to performance reporting.
25. The accounting officer did not ensure that the adequate controls are in place with regards to the monitoring of predetermined objectives to ensure valid, accurate and complete predetermined objectives are reported.
26. The accounting officer and his delegated officials did not exercise adequate oversight responsibility with regards to compliance with laws and regulations to detect and prevent unauthorised, irregular and fruitless and wasteful expenditure.
27. Management have not complied with the applicable laws and regulations due to the board not establishing adequate policies and procedures which would enable the municipal entity to comply the applicable laws and regulations. Management have furthermore not

established the required governance structures to enable effective oversight of the entity.

### **Financial Management**

28. Management did not take adequate action to address risks relating to the achievement of complete and accurate performance reporting. Management did not adequately monitor and review reported performance information.

*Auditor-General*

Cape Town

20 December 2011



**AUDITOR - GENERAL  
SOUTH AFRICA**

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